

MUNICIPALITY OF WOONSOCKET
AUDIT REPORT
AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2004

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ENDORF LURKEN OLSON & Co. Prof LLC

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***REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS***

**To the Board of Trustees
Municipality of Woonsocket, South Dakota**

We have audited the financial statements of the governmental activities, the business-type activities and each major fund of Municipality of Woonsocket, South Dakota, as of December 31, 2004, and for the year then ended, which collectively comprise the Municipality's basic financial statements, and have issued our report thereon dated February 4, 2006. The financial statements were prepared on the modified cash basis, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Municipality of Woonsocket's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance which is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of current audit findings as item 2005-2.

Internal Control Over Financial Reporting

In planning and performing our audit we considered Municipality of Woonsocket's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Municipality of Woonsocket's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of current audit findings as item 2005-01. We also noted certain additional matters that we reported to management of the Municipality in a separate communication dated February 4, 2006.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

This report is intended solely for the information and use of management, others within the organization and Board of Trustees, and is not intended to be and should not be used by anyone other than these specified parties. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

Endorf Luken Olson & Co. P.C.

Mitchell, South Dakota
February 4, 2006



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INDEPENDENT AUDITOR'S REPORT

**To the Board of Trustees
Municipality of Woonsocket, South Dakota**

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the Municipality of Woonsocket, South Dakota, as of December 31, 2004, and for the year ended December 31, 2004, which collectively comprise the Municipality's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Municipality of Woonsocket's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Municipality of Woonsocket prepares its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Management has not presented government-wide financial statements to display the modified cash basis financial position and changes in modified cash basis financial position of its governmental activities and business-type activities. Accounting principles generally accepted in the United States of America, as applied to the Municipality's modified cash basis of accounting, require the presentation of government-wide financial statements. The amounts that would be reported in government-wide financial statements resulting from modified cash basis transactions for the Municipality's governmental activities and business-type activities are not reasonably determinable.

The Municipality of Woonsocket has not presented disclosures relating to significant accounting policies, deposits, long-term borrowing, risk management, property taxes, retirement plan, and subsequent events that would be required in financial statements presented on the modified cash basis of accounting. The effect of these omissions on the financial statements has not been determined.

In our opinion, because of the effects of the matters discussed in the preceding paragraphs, the financial statements referred to above do not present fairly, in conformity with the modified cash basis of accounting, the cash balances of Municipality of Woonsocket, as of December 31, 2004.

The Municipality of Woonsocket has not presented required supplementary information, consisting of management's discussion and analysis and budgetary comparison, schedules and related notes that accounting principles generally accepted in the United States of America have determined are necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 4, 2006, on our consideration of Municipality of Woonsocket's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Endorf Luchen Olson & Co. P.C. L.L.C.

Mitchell, South Dakota
February 4, 2006

**MUNICIPALITY OF WOONSOCKET
SCHEDULE OF CURRENT AUDIT FINDINGS
DECEMBER 31, 2004**

Current Audit Findings:

Audit Finding No. 2005-01:

A lack of proper segregation of duties existed for the revenue, expenditure, and payroll functions resulting in decreased reliability of reported financial data.

Analysis:

The city finance officer processed all revenue, expenditure, and payroll transactions. The city finance officer does all accounting functions. As a result, an inadequate segregation of duties existed.

Recommendation:

We recommend that the municipality officials be aware of this lack of segregation of duties and attempt to provide compensating internal controls whenever and wherever possible and practical.

Audit Finding No. 2005-02:

SDCL 6-1-1 states it shall be unlawful for any officer of a municipality who has been elected or appointed to be interested, either by himself or agent, in any contract entered into by said city.

Analysis:

A board member and the municipality entered into a contractual agreement for approximately \$368,000. This note was to be repaid over a twelve-year period. However, such a contract is null and void from the beginning.

Recommendation:

We recommend that the municipality officials be cognizant of these types of transactions.

MUNICIPALITY OF WOONSOCKET
BALANCE SHEET
MODIFIED CASH BASIS -- GOVERNMENT FUNDS
DECEMBER 31, 2004

	<u>General Fund</u>	<u>Second Penny Sales Tax</u>	<u>TIFF</u>	<u>Total Government Funds</u>
Cash Assets				
Cash in Checking Accounts	\$ 10,006.39	\$ -	\$ -	\$ 10,006.39
Change and Petty Cash	150.00	-	-	150.00
Passbook Savings	206,968.07	61,004.55	4,598.47	272,571.09
Savings Certificates	70,000.00	-	-	70,000.00
	<u>\$287,124.46</u>	<u>\$61,004.55</u>	<u>\$ 4,598.47</u>	<u>\$352,727.48</u>
Fund Balance	<u>\$287,124.46</u>	<u>\$61,004.55</u>	<u>\$ 4,598.47</u>	<u>\$352,727.48</u>

MUNICIPALITY OF WOONSOCKET
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
MODIFIED CASH BASIS -- GOVERNMENT FUNDS
DECEMBER 31, 2004

	General Fund	Capital Project	Second Penny Sales Tax	TIFF	Total Government Funds
Revenues					
Property tax	\$ 99,692.58	\$ -	\$ -	\$ 47,475.54	\$ 147,168.12
Sales tax	117,327.21	-	116,478.73	-	233,805.94
Other taxes	1,961.69	-	-	-	1,961.69
Licenses and permits	3,850.00	-	-	-	3,850.00
Federal grants	8,652.00	185,000.00	44,235.00	-	237,887.00
Bank franchise tax	223.39	-	-	-	223.39
Motor vehicle commercial	2,474.08	-	-	-	2,474.08
Liquor tax revision	4,084.28	-	-	-	4,084.28
Motor vehicle licenses	5,098.39	-	-	-	5,098.39
Local government highway and bridge fund	10,409.29	-	-	-	10,409.29
County highway and bridge reserve tax	3,256.65	-	-	-	3,256.65
Charges for goods and services	38,955.64	-	-	-	38,955.64
Fines and forfeits	19.50	-	-	-	19.50
Investment earnings	6,356.30	-	-	-	6,356.30
Other revenues	21,137.20	122,218.00	-	-	143,355.20
Total Revenues	<u>323,498.20</u>	<u>307,218.00</u>	<u>160,713.73</u>	<u>47,475.54</u>	<u>838,905.47</u>

MUNICIPALITY OF WOONSOCKET
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
MODIFIED CASH BASIS -- GOVERNMENT FUNDS
DECEMBER 31, 2004

(CONTINUED)

	General Fund	Capital Project	Second Penny Sales Tax	TIFF	Total All Funds
Expenditures					
General government	\$ 47,395.25	\$ -	\$ -	\$ -	\$ 47,395.25
Police	19,500.00	-	-	-	19,500.00
Highways and streets	54,156.27	-	44,060.12	-	98,216.39
Sanitation	41,054.08	-	-	-	41,054.08
Cemeteries	2,480.27	-	-	-	2,480.27
Culture-recreation	17,434.11	402,679.00	123,200.58	-	543,313.69
Conservation and development	1,985.00	-	-	-	1,985.00
Debt service	6,272.16	-	-	47,475.54	53,747.70
Intergovernmental expenditures	25,547.98	-	-	-	25,547.98
Miscellaneous	11,952.73	-	-	-	11,952.73
Total Expenditures	<u>227,777.85</u>	<u>402,679.00</u>	<u>167,260.70</u>	<u>47,475.54</u>	<u>845,193.09</u>
Transfers in	-	95,461.00	-	-	95,461.00
Transfers (out)	(54,581.00)	-	(40,880.00)	-	(95,461.00)
Payroll	<u>(57,872.15)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(57,872.15)</u>
Subtotal of Revenues, Expenditures and Transfers	(16,732.80)	-	(47,426.97)	-	(64,159.77)
Fund Cash Balance, January 1, 2004	<u>303,857.26</u>	<u>-</u>	<u>108,431.52</u>	<u>4,598.47</u>	<u>416,887.25</u>
Fund Cash Balance, December 31, 2004	<u>\$ 287,124.46</u>	<u>\$ -</u>	<u>\$ 61,004.55</u>	<u>\$ 4,598.47</u>	<u>\$ 352,727.48</u>

MUNICIPALITY OF WOONSOCKET
STATEMENT OF NET ASSETS
MODIFIED CASH BASIS -- PROPRIETARY FUNDS
DECEMBER 31, 2004

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Cash Assets			
Passbook Savings	<u>\$12,284.80</u>	<u>\$73,818.37</u>	<u>\$ 86,103.17</u>
	<u>\$12,284.80</u>	<u>\$73,818.37</u>	<u>\$ 86,103.17</u>
Fund Balance	<u>\$12,284.80</u>	<u>\$73,818.37</u>	<u>\$ 86,103.17</u>

January 1, 2004	<u>52,122.90</u>	<u>85,981.33</u>	<u>138,104.23</u>
Fund Cash Balance, December 31, 2004	<u>\$ 12,284.80</u>	<u>\$ 73,818.37</u>	<u>\$ 86,103.17</u>

MUNICIPALITY OF WOONSOCKET
STATEMENT OF NET ASSETS
MODIFIED CASH BASIS -- PROPRIETARY FUNDS
DECEMBER 31, 2004

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Cash Assets			
Passbook Savings	<u>\$12,284.80</u>	<u>\$73,818.37</u>	<u>\$ 86,103.17</u>
	<u>\$12,284.80</u>	<u>\$73,818.37</u>	<u>\$ 86,103.17</u>
 Fund Balance	 <u>\$12,284.80</u>	 <u>\$73,818.37</u>	 <u>\$ 86,103.17</u>

MUNICIPALITY OF WOONSOCKET
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS
MODIFIED CASH BASIS -- PROPRIETARY FUNDS
DECEMBER 31, 2004

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Revenues			
Enterprise operating revenue	\$ 46,180.44	\$ 42,728.76	\$ 88,909.20
Total Revenues	<u>46,180.44</u>	<u>42,728.76</u>	<u>88,909.20</u>
Expenses			
Personal services	14,225.83	10,465.50	24,691.33
Other expenses	3,409.20	10,882.11	14,291.31
Supplies and materials	62,357.10	31,203.75	93,560.85
Total Expenses	<u>79,992.13</u>	<u>52,551.36</u>	<u>132,543.49</u>
Subtotal of Revenues and Expenses	(33,811.69)	(9,822.60)	(43,634.29)
Prior Period Adjustments	(6,026.41)	(2,340.36)	(8,366.77)
Fund Cash Balance, January 1, 2004	<u>52,122.90</u>	<u>85,981.33</u>	<u>138,104.23</u>
Fund Cash Balance, December 31, 2004	<u>\$ 12,284.80</u>	<u>\$ 73,818.37</u>	<u>\$ 86,103.17</u>